



## **FEDERAL RESERVE SYSTEM**

### **Agency Information Collection Activities: Announcement of Board Approval under Delegated Authority and Submission to OMB**

**AGENCY:** Board of Governors of the Federal Reserve System.

**SUMMARY:** The Board of Governors of the Federal Reserve System (Board) is adopting a proposal to extend for three years, with revision, the Market Risk Capital Rule (FR 4201; OMB No. 7100-0314). The revisions are effective immediately.

#### **FOR FURTHER INFORMATION CONTACT:**

Federal Reserve Board Clearance Officer – Nuha Elmaghrabi – Office of the Chief Data Officer, Board of Governors of the Federal Reserve System, Washington, DC 20551, (202) 452-3829.

Office of Management and Budget (OMB) Desk Officer – Shagufta Ahmed – Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17<sup>th</sup> Street, NW, Washington, DC 20503, or by fax to (202) 395-6974.

A copy of the Paperwork Reduction Act (PRA) OMB submission, including the reporting form and instructions, supporting statement, and other documentation will be placed into OMB's public docket files. These documents also are available on the Federal Reserve Board's public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx> or may be requested from the agency clearance officer, whose name appears above.

**SUPPLEMENTARY INFORMATION:** On June 15, 1984, OMB delegated to the Board authority under the PRA to approve and assign OMB control numbers to collections of information conducted or sponsored by the Board. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information.

Copies of the PRA Submission, supporting statements, and approved collection of information instrument(s) are placed into OMB's public docket files.

**Final Approval under OMB Delegated Authority of the Extension for Three Years, With Revision, of the Following Information Collection:**

*Report title:* Market Risk Capital Rule.

*Agency form number:* FR 4201.

*OMB control number:* 7100-0314.

*Effective Date:* The revisions are effective immediately.

*Frequency:* Annually, quarterly, and on occasion.

*Respondents:* Bank holding companies (BHCs), savings and loan holding companies (SLHCs), intermediate holding companies (IHCs), and state member banks (SMBs).

*Estimated number of respondents:* 37.

*Estimated average hours per response:* Reporting, 1,088; Recordkeeping, 508; Disclosure, 28.

*Estimated annual burden hours:* Reporting, 1,088; Recordkeeping, 31,744; Disclosure, 2,812.

*General description of report:* The market risk capital rule, which requires banking organizations to hold capital to cover their exposure to market risk, is an important component of the Board's regulatory capital framework (12 CFR part 217; Regulation Q). The rule includes collections of information that permit the Board to monitor the market risk profile of Board-regulated banking organizations that have significant market risk and evaluate the impact of the market risk rule on those banking organizations.<sup>1</sup> The collections of information provide current statistical data identifying market risk areas on which to focus onsite and offsite examinations. They also allow the Board to assess the levels and components of each reporting institution's risk-based capital

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<sup>1</sup> For purposes of this notice, banking organizations include those listed in respondent section that are subject to the market risk rule.

requirements for market risk and the adequacy of the institution's capital under the market risk capital rule. These collections of information ensure capital adequacy of banking organizations according to their level of market risk and assist the Board in implementing and validating the market risk framework. There are no required reporting forms associated with this information collection.

The market risk capital rule applies to any banking organization with aggregate trading assets and trading liabilities equal to (1) 10 percent or more of quarter-end total assets or (2) \$1 billion or more.<sup>2</sup> The Board may exclude a banking organization that meets these thresholds if the Board determines that the exclusion is appropriate based on the level of market risk of the banking organization and is consistent with safe and sound banking practices.<sup>3</sup> The Board may further apply the market risk capital rule to any other banking organization if the Board deems it necessary or appropriate because of the level of market risk of the banking organization or to ensure safe and sound banking practices.<sup>4</sup> There are several recordkeeping requirements outlined in the market risk capital rule. Subject banking organizations must adequately document all material aspects of their internal models; the management and valuation of their covered positions; their control, oversight, validation, and review processes and results; and their internal assessments of capital adequacy. Subject banking organizations are also required to have clearly defined policies and procedures for determining which trading assets and trading liabilities are trading positions and which trading positions are correlation trading positions. Furthermore, subject banking organizations are required to have clearly defined trading and hedging strategies for trading positions.

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<sup>2</sup> See 12 CFR 217.201(b)(1).

<sup>3</sup> See 12 CFR 217.201(b)(3).

<sup>4</sup> See 12 CFR 217.201(b)(2).

In addition, subject banking organizations must conduct and document an analysis of the risk characteristics of each securitization position prior to acquiring the position, considering structural features of the securitization that would materially impact the performance of the position; relevant information regarding the performance of underlying credit exposure(s); relevant market data of the securitization; and, for resecuritization positions, performance information on the underlying securitization exposure. On an ongoing basis (but no less frequently than quarterly), subject banking organizations must evaluate, review, and update as appropriate the analysis required for each securitization position.

In order to comply with the reporting requirements of the market risk capital rule, subject banking organizations must obtain prior written approvals of the Board before (1) using any internal model to calculate risk-based capital requirements under subpart F, (2) including in its capital requirement for *de minimis* exposures, (3) making any material change to the policies and procedures outlined in the recordkeeping requirements, (4) including portfolios of equity positions in its incremental risk model, and (5) using the method specified in Section 217.209(a) to measure comprehensive risk for one or more portfolios of correlation trading positions.

In order to comply with the disclosure requirements of the market risk capital rule, subject banking organizations must provide certain public quantitative disclosures and annual qualitative disclosures.

*Legal authorization and confidentiality:* The FR 4201 is authorized pursuant to sections 9(6) and 11 of the Federal Reserve Act for SMBs (12 U.S.C. 324 and 248); pursuant to section 5 of the Bank Holding Company Act of 1956 (BHC Act) (12 U.S.C. 1844(c)) and, in some cases, section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) for BHCs (12 U.S.C. 5365); pursuant to section 5 of the BHC Act (12 U.S.C. 1844), in conjunction

with section 8 of the International Banking Act of 1978 (12 U.S.C. 3106), and section 165 of the Dodd-Frank Act for IHCs of foreign banking organizations; and pursuant to sections 10(b)(2) and (g) of the Home Owners' Loan Act for SLHCs (12 U.S.C. 1467a(b)(2) and (g)). The FR 4201 is mandatory.

The information collected pursuant to the FR 4201 is collected as part of the Board's supervisory process, and therefore may be afforded confidential treatment pursuant to exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). In addition, individual respondents may request that certain data be afforded confidential treatment pursuant to exemption 4 of the FOIA, which exempts from disclosure "trade secrets and commercial or financial information obtained from a person [that is] privileged or confidential" (5 U.S.C. 552(b)(4)). Determinations of confidentiality based on exemption 4 of the FOIA would be made on a case-by-case basis.

*Current actions:* On January 17, 2020, the Board published a notice in the Federal Register (85 FR 3049) requesting public comment for 60 days on the extension, with revision, of the Market Risk Capital Rule.

In August 2019, the Board extended the FR 4201 for three years, with revision<sup>5</sup>. The revisions included removing references to provisions in the market risk capital rule concerning securitizations. This revision was in error, as the market risk capital rule contains a recordkeeping requirement concerning securitizations, which is described above. Therefore, the Board proposed to reinstate this recordkeeping requirement. Additionally, the Board proposed to revise the FR 4201 to account for the general recordkeeping requirement in section 217.203(f) of the market risk capital rule, which was not previously accounted for.

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<sup>5</sup> 84 FR 39843.

The comment period for this notice expired on March 17, 2020. The Board did not receive any comments. The revisions will be implemented as proposed.

Board of Governors of the Federal Reserve System, September 14, 2020.

**Michele Taylor Fennell,**

*Assistant Secretary of the Board.*

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